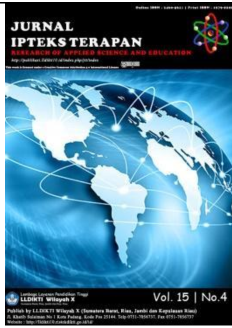

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TAX AVOIDANCE, FINANCIAL PERFORMANCE, COPORATE GOVERNACE, AND FIRM VALUE

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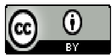

Abstract

The purpose of this study was to examine the effect of tax avoidance, financial performance, corporate governance on firm value. Financial performance proxies are return on assets, return on equity, size and leverage. Meanwhile, the proxy for corporate governance is the audit committee. This study uses a sample of all companies listed on the Indonesia Stock Exchange (IDX) in 2015-2019 except for financial companies. The final sample in this study was 1,158 companies. This study uses multiple linear regression data analysis techniques. Firm value is measured using Tobin's Q. Based on the results of hypothesis testing, the results show that tax avoidance has a negative effect on firm value. Furthermore, for return on assets, return on equity and leverage have a positive effect on firm value. However, the size and audit committee variables have no effect on firm value.

Keywords: Tax Avoidance, Financial Performance, Corporate Governance, Firm Value

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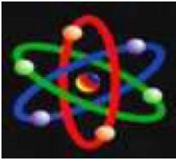
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INTRODUCTION

Financial reports provide information related to company activities. One of the most important issues in managing a company is how to align the two different interests between the agent and the principal (Byuna et al., 2009). In an effort to maximize the value of the company, communication and coordination are needed for the interests of the agent when information asymmetry occurs. When the agent has a lot of information related to the company, the agent is more likely to act opportunistically in providing information (AlNajjar & Riahi-Belkaoui, 1999). The interests of the agents are varied and often conflicting. This requires how to coordinate the activities and interests of agents. Maximizing company value by coordinating agent interests is important (Byuna et al., 2009). To reduce the opportunistic nature of managers, a good governance mechanism is needed to mitigate this problem.

The main objective of the company is to increase the value of the company in providing business continuity stability. Empirical results state that in carrying out business activities the company can get capital either from increasing debt or increasing equity which can affect company value (Aras & Mutlu Yildirim, 2018). The existence of funding by companies through a debt mechanism can provide a signal to the market for high financial risk (Jeon, 2021). Managers' efforts to reduce debt are actions taken to give a good image to investors, this is one of the financial strategies being carried out (Sony & Bhaduri, 2021). This is not realized by investors that the company's decision to increase debt in the long term means that managers indirectly transfer company risk to creditors which can incur agency costs for shareholders (Campbell et al., 2016). Theoretically, an increase in debt can be associated with interest expenses which can reduce tax payments. The traditional view states that tax avoidance activities can increase shareholder value (Herron & Nahata, 2020). The findings of Desai & Dharmapala, (2006) provide a different opinion that tax avoidance is an attempt by managers to manipulate earnings. Different results also in research (Abdul Wahab & Holland, 2012; Chen et al., 2014) gave the result that tax avoidance has a negative effect on firm value.

However, from another point of view, the existence of debt can reduce investors' opportunities to receive dividends (Al-Slehat, 2019). Finally debt decisions can affect stock prices. Previous research has examined the effect of capital structure on firm value as has been done by (Al-Slehat, 2019; Aras & Mutlu Yildirim, 2018; Vanden, 2016). in this study examined the effect of capital structure and other factors such as profitability, leverage and firm size.

This research is interesting to study and to get empirical evidence, the fact is that the JCI has fluctuated and has tended to decline starting in 2012 (Cnbc Indonesia 2018). The decline in the JCI that has occurred over the past 3 years in the 2016-2018 period provides evidence of a downward trend in stock prices. However, every year the companies listed on the Indonesia Stock Exchange (IDX) have experienced an increase, so this makes investors faced with a variety of investment choices. This situation requires

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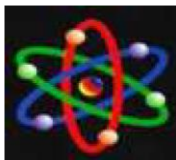

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investors to be selective in choosing a company, therefore an analysis is needed into the factors related to a decrease or increase in company value that can affect stock prices.

RESEARCH METHODS

This study uses all companies listed on the Indonesian Stock Exchange (IDX) from 2015 to 2019. Tests were carried out using SPSS version 25 to obtain regression results. The sample in this study excludes financial companies that have different characteristics and rules.

RESULTS AND DISCUSSION

Descriptive statistics in this study are stated in the following figure:

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NILAI PERUSAHAAN	1158	0,12	1,95	1,01	0,37
TAX AVOIDANCE	1158	-0,55	-0,01	-0,22	0,13
ROA	1158	0,00	0,12	0,04	0,02
ROE	1158	0,00	0,22	0,07	0,05
SIZE	1158	24,52	33,32	28,80	1,66
LEVERAGE	1158	0,00	0,97	0,42	0,20
KOMITE AUDIT	1158	0,20	1,00	0,76	0,23
Valid N (listwise)	1158				

Sumber: Ddata Sekumder Diolah, 2021

Figure 2. Descriptive Statistics

Figure above shows that the average firm value is greater than one. This provides information that the company has a good investment opportunity. The average value of the tax avoidance variable is -0.22, meaning that the tax paid by the company to profit before tax is 22%. The variable return on assets has an average of 0.04, meaning that the company generates income generated from total assets of 4%. Next, the variable return on equity has an average value of 0.07, the companies in the sample can generate a net profit of 7% of their own capital. The size variable has an average value of 28.80, meaning that the sample companies have an average total asset of 2,880% of the total. The leverage variable has an average of 0.42, meaning that the sample company has a debt of 42% to carry out its activities. Furthermore, the audit committee has an average value of 0.76, meaning that the sample companies have an audit committee in this study of 76%.

Normality test

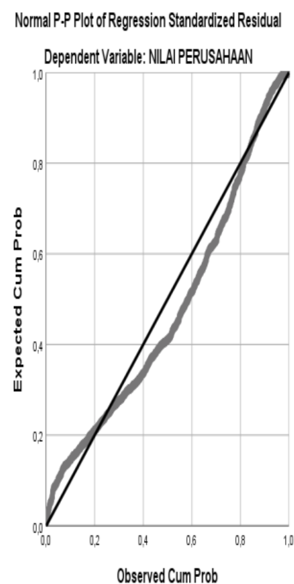

Figure 2. Normality Test Results

Figure above shows that the distribution of data in this study followed the direction of the diagonal line, so it can be concluded that the data in this study were normally distributed. This is in accordance with Ghozali (2018) which states that if the points follow the direction of the diagonal line, the research data is normally distributed.

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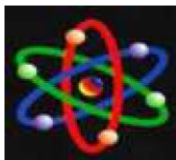

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Heteroscedasticity Test

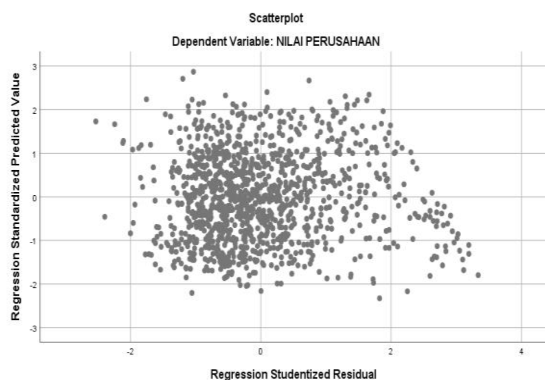

Figure 3. Heteroscedasticity Test Results

Figure above shows the results of the heteroscedasticity test which gives the result that the dots are spread evenly and do not form a specific pattern. Therefore in this study there are no symptoms of heteroscedasticity in the regression model. In accordance with Ghozali (2018) which states that if the points spread and do not form a certain pattern, it can be concluded that there is no heteroscedasticity.

Multiple Regression Analysis

After going through the classic assumption test, it can then be continued with hypothesis testing.
The following figure of multiple regression analysis is presented in Table 3.

Variabel	Model Regresi		
	Koefisien	t value	Sig t
Konstanta	0,433	2,305	0,021
TA	-0,195	-2,434	0,015***
ROA	1,978	2,069	0,039***
ROE	1,426	2,544	0,011***
SIZE	0,001	1,594	0,111
LEV	0,215	2,645	0,008***
KA	-0,047	-1,101	0,271
F		33,670	
Sig F		0,000	
R2		0,145	

Keterangan:
* *p value* ≤ 0,1, ** *p value* ≤ 0,05, *** *p value* ≤ 0,01
Sumber : Data Diolah Penulis, 2021

Figure 4. Multiple Regression Analysis

Based on Figure 4 above, the multiple regression equation is obtained as follows:
$NP = 0.433 - 0.195TA + 1.978ROA + 1.426ROE + 0.001SIZE + 0.215LEV - 0.047KA + \varepsilon$ …….. (1)

The regression equation above has a constant value of 0.433 which means that if the six independent variables are assumed to be constant (no changes occur), then the firm's value will increase by 43.3 percent. However, there is a regression coefficient on the variable tax avoidance and audit committee which has a negative value (-). The tax avoidance coefficient of -0.195 means that every 1% reduction in tax avoidance will increase the company's value by 19.5%. Likewise with the audit committee which has a coefficient of -0.047 meaning that every 1% reduction of the audit committee will increase the firm value by 04.7%.
Figure 4 provides information that the Adjusted R square value is 0.145 or 14.5%. This figure means that 14.5% of the variation in firm value can be explained by the six independent variables. Meanwhile, the remaining 85.5% can be explained by other variables not included in this research model.
Figure 4 shows an F significance of 0.000 having a value less than 0.05, therefore it

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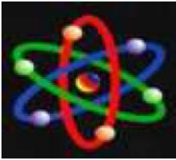
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can be concluded that simultaneously there is a significant influence of the six independent variables on firm value. Therefore the regression model used is feasible and capable of predicting firm value.

Hypothesis Discussion

Figure 4 shows a tax avoidance coefficient of -0.195 with a significance value of 0.015 which is smaller than 0.05. These results indicate that tax avoidance has a negative effect on firm value, thus hypothesis 1 can be accepted. Tax avoidance is an opportunistic form carried out by managers for personal gain. Investors assume that tax avoidance will have a negative impact on the company when it is known by the tax authorities (Siew Yee et al., 2018). Utilization of complex tax avoidance provides space for managers to manipulate the company's actual performance. The information provided is a ticking time bomb which investors will later find out, this is what can cause a decrease in company value.

Figure 4. shows the coefficient of return on assets (ROA) of 1.978 with a significance of 0.039 which is less than 0.05. Thus the return on assets has a positive effect on firm value so that hypothesis 2a can be accepted. These results confirm that investors prefer companies with a return on assets owned. Investors believe that the higher the return on assets generated, the more effective the company is in managing its assets. Therefore this is good news for the company, so that it can increase the value of the company. In line with Liow's research, (2010) companies with greater growth will produce higher returns on assets. Companies that have a good return on assets provide an indication of a manager's performance that is in line with the main goals of the shareholders. Shareholders want a return on their investment in the form of dividends. Therefore when the company distributes dividends to shareholders it will be good news for potential investors (Chen, 2011).

Figure 4 shows the coefficient of return on equity (ROE) of 1.426 with a significance value of 0.011 which is less than 0.05. Thus the return on equity has a positive effect on firm value so that hypothesis 2b can be accepted. These results indicate that the sample companies use more of their own capital to carry out operational activities. Investors see that a company that has a good return on equity will have an impact on the return on investment given in the form of dividends. The existence of company performance that is carried out by prioritizing investor services will have a positive influence on company value (Sun & Kim, 2013). Therefore a company that has a fairly high ratio of return on equity indicates that the company is in a good performing situation, so that investors believe that the money that has been spent has been used properly according to the company's goals. The existence of such good news is also responded by the capital market to obtain and attract prospective investors.

Figure 4 shows a size coefficient of 0.001 with a significance value of 0.111 greater than 0.10. Thus size has no effect on firm value so that hypothesis 2c is rejected. Size is a measure of the company's performance, the larger the size of the company, the higher the total assets owned. The company's wealth is not measured by the number of assets but how liquid these assets can be converted. Investors believe that size is not the main

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benchmark for assessing a company's success. In this way, size cannot increase the value of the company. In line with the findings of Abu Mouamer (2011), a larger company size does not guarantee the interest of investors or creditors in investing their funds in the company.
Figure 4 shows a leverage coefficient of 0.215 with a significance value of 0.008 which is less than 0.05. Thus leverage affects firm value so that hypothesis 2d is accepted. Leverage is considered as investor confidence in creditors to be able to provide loans to companies. Companies that have leverage mean that the information contained within the company has been submitted in an accountable manner to creditors. Creditors provide loans on the basis of good company performance, therefore investors assess companies that have leverage will have a good reputation in the eyes of creditors. However, this leverage is a form of opportunistic managers in tax avoidance efforts. Think capitalitation is one of the methods used for tax avoidance. Utilization of debt will be used to reduce the company's net profit because debt will cause interest expenses which can reduce company profits. The existence of debt also reduces the dividend payout for the tax benefit of the dividend tax. Shareholders will generally choose to increase leverage, this is done to improve the performance of managers in managing the company due to interest expenses, therefore managers are more careful and less opportunistic (Admati et al., 2018). Managers perform optimally because there is an interest expense that becomes a liability.

Figure 4 shows the audit committee coefficient of -0.047 with a significance value of 0.271 greater than 0.10. These results indicate that the audit committee has no effect on firm value so that hypothesis 3 is rejected. Investors do not see the audit committee as a determining element in making investments. The audit committee has no influence on firm value because the audit committee is a sub-section of the board of commissioners. The role of the audit committee is limited to providing advice unlike the independent board of commissioners. The existence of an audit committee does not guarantee that the company has good performance, so that its existence does not affect the value of the company (Indrastuti, 2021).

CONCLUSION

Based on the results of the above research it can be concluded as follows:

1. Tax avoidance is proven to have a negative effect on firm value, so that H1 is accepted.
2. Return on assets is proven to have a positive effect on firm value, so that H2a is accepted.
3. Return on equity is proven to have a positive effect on company value, so that H2b is accepted.
4. Size is not proven to have a positive effect on firm value, so H2c is rejected.
5. Leverage is proven to have a positive effect on firm value, so that H2d is accepted.
6. The audit committee is not proven to have a positive effect on firm value, so H3 is rejected.

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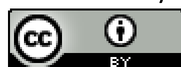
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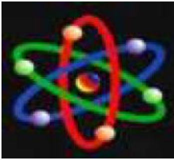

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